



**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements and
Supplemental Information

Years Ended June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Embry-Riddle Aeronautical University, Inc. and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Embry-Riddle Aeronautical University, Inc. and Subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Embry-Riddle Aeronautical University, Inc. and Subsidiaries as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in note 2(y) to the consolidated financial statements, in fiscal year 2019, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Net Assets Class Disaggregation Schedule and Schedule of Title IV Strength Factor Score is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The Net Assets Class Disaggregation Schedule and Schedule of Title IV Strength Factor Score are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Net Assets Class Disaggregation Schedule and Schedule of Title IV Strength Factor Score are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The consolidated financial statements of Embry-Riddle Aeronautical University, Inc. and Subsidiaries as of June 30, 2018 and for the year then ended were audited by predecessor auditors and in their report dated October 11, 2018 they issued an unmodified opinion.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Tampa, Florida
October 25, 2019

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 84,652	91,279
Short-term investments (note 4)	101,496	75,907
Accounts and notes receivable, less allowance for doubtful accounts of \$1,070 and \$1,062, respectively	11,602	9,506
Current portion of student loan receivables, net (note 6)	1,332	1,707
Current portion of contributions receivable, net (note 7)	4,215	664
Inventories	3,562	3,335
Prepaid expenses and other current assets	7,471	5,796
Total current assets	214,330	188,194
Deposits and investments held with trustees	1,772	25,460
Long-term accounts and notes receivables, net	2,200	1,270
Student loans receivable, less current portion and allowance for doubtful accounts of \$814 and \$1,201, respectively (note 6)	9,390	10,310
Contributions receivable, net, less current portion (note 7)	1,884	1,118
Other assets	329	1,126
Long-term investments (note 4)	159,623	136,394
Land, land improvements, buildings and equipment, net (note 8)	497,141	465,747
Total assets	\$ 886,669	829,619
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 36,361	49,822
Advances for student loans and financial aid	9,851	9,542
Student deposits and advance payments	10,151	7,103
Deferred revenue – current portion	12,013	11,202
Current portion of long-term debt (note 9)	11,436	12,896
Total current liabilities	79,812	90,565
Deferred revenue, less current portion	10,607	4,849
Long-term debt, net (note 9)	209,318	218,134
Other liabilities	93	—
Total liabilities	299,830	313,548
Net assets (note 14):		
Without donor restrictions	515,579	459,904
With donor restrictions:		
Time or purpose	31,001	28,371
Perpetual	40,259	27,796
Total net assets	586,839	516,071
Total liabilities and net assets	\$ 886,669	829,619

See accompanying notes to consolidated financial statements.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Statements of Activities

Year ended June 30, 2019

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and other additions:			
Tuition, net of institutionally funded scholarships of \$103,019	\$ 300,219	—	300,219
Flight fees	37,052	—	37,052
Other fees	21,192	—	21,192
Grants and contracts	18,929	—	18,929
Private gifts	499	—	499
Sales and services-educational	219	—	219
Auxiliary enterprises	28,889	—	28,889
Investment income, net	3,253	26	3,279
Other revenue	5,887	—	5,887
Investment earnings distributed	—	1,384	1,384
	416,139	1,410	417,549
Total operating revenue and other additions			
Net assets released from restrictions	4,110	(4,110)	—
Total operating revenue and other additions	420,249	(2,700)	417,549
Expenses (note 13):			
Salaries and wages	183,539	—	183,539
Fringe benefits	52,797	—	52,797
Other operating expenses	81,744	—	81,744
Insurance	4,234	—	4,234
Utilities	7,243	—	7,243
Interest	6,249	—	6,249
Depreciation and amortization	35,340	—	35,340
	371,146	—	371,146
Total operating expenses			
Excess (deficiency) of revenue and other additions over expense from operating activities	49,103	(2,700)	46,403
Nonoperating activities:			
Private gifts	1,405	16,074	17,479
Investment return, net	3,813	3,113	6,926
Distribution of prior year investment earnings for spending	—	(1,384)	(1,384)
Other nonoperating activities	1,354	(10)	1,344
	6,572	17,793	24,365
Total nonoperating activities			
Changes in net assets	55,675	15,093	70,768
Net assets, beginning of year	459,904	56,167	516,071
Net assets, end of year	\$ 515,579	71,260	586,839

See accompanying notes to consolidated financial statements.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Statements of Activities

Year ended June 30, 2018

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and other additions:			
Tuition, net of institutionally funded scholarships of \$100,103	\$ 290,498	—	290,498
Flight fees	31,603	—	31,603
Other fees	19,154	—	19,154
Grants and contracts	21,990	—	21,990
Private gifts	502	—	502
Sales and services-educational	794	—	794
Auxiliary enterprises	26,184	—	26,184
Investment income, net	1,654	16	1,670
Other revenue	4,783	—	4,783
Investment earnings distributed	47	1,318	1,365
	397,209	1,334	398,543
Total operating revenue and other additions			
Net assets released from restrictions	2,768	(2,768)	—
Total operating revenue and other additions	399,977	(1,434)	398,543
Expenses (note 13):			
Salaries and wages	175,717	—	175,717
Fringe benefits	51,263	—	51,263
Other operating expenses	83,051	—	83,051
Insurance	3,949	—	3,949
Utilities	6,884	—	6,884
Interest	4,217	—	4,217
Depreciation and amortization	31,633	—	31,633
	356,714	—	356,714
Total operating expenses			
Excess (deficiency) of revenue and other additions over expense from operating activities	43,263	(1,434)	41,829
Nonoperating activities:			
Private gifts	397	2,779	3,176
Investment return, net	6,778	3,418	10,196
Distribution of prior year investment earnings for spending	(47)	(1,318)	(1,365)
Loss on extinguishment of debt	(3,573)	—	(3,573)
Other nonoperating activities	11,131	—	11,131
	14,686	4,879	19,565
Total nonoperating activities			
Changes in net assets	57,949	3,445	61,394
Net assets, beginning of year	401,955	52,722	454,677
Net assets, end of year	\$ 459,904	56,167	516,071

See accompanying notes to consolidated financial statements.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Changes in net assets	\$ 70,768	61,394
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	35,340	31,633
Realized and unrealized gains on investments	(3,794)	—
Net amortization of bond premium and debt issuance costs	61	80
Loss on disposal of equipment	2,227	2,415
Loss on extinguishment of debt	—	3,573
Contributed land and equipment	(1,404)	(634)
Contributions restricted for long-term investment	(12,498)	(1,562)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(3,026)	(1,546)
Contributions receivable	(4,317)	892
Inventories	(227)	(189)
Prepaid expenses and other assets	(878)	(159)
Accounts payable and accrued expenses	(14,654)	5,402
Advances for student loans and financial aid	309	(583)
Deferred revenue	6,569	(11,171)
Other liabilities	93	—
Student deposits and advance payments	3,048	605
Net cash provided by operating activities	77,617	90,150
Cash flows from investing activities:		
Sale of investments	47,104	22,445
Purchase of investments	(67,674)	(32,450)
Purchase of short-term investments	(24,454)	(75,907)
Principal received on student loan receivable	1,426	2,334
Loans made to students	(131)	(1,871)
Proceeds from sale of land, land improvements, buildings, and equipment	374	43
Capital expenditures	(66,738)	(95,212)
Net cash used in investing activities	(110,093)	(180,618)
Cash flows from financing activities:		
Long-term debt proceeds	—	72,473
Principal payments on long-term debt	(10,337)	(62,001)
Payment of bond issuance costs	—	(462)
Decrease (increase) in deposits and investments with trustees	23,688	(6,245)
Proceeds from contributions restricted for:		
Investment in endowment	12,463	994
Investment in plant	35	569
Net cash provided by financing activities	25,849	5,328
Change in cash and cash equivalents	(6,627)	(85,140)
Cash and cash equivalents, beginning of year	91,279	176,419
Cash and cash equivalents, end of year	\$ 84,652	91,279
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 8,353	8,326
Capital asset acquisitions in accounts payable	1,193	—

See accompanying notes to consolidated financial statements.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(in thousands)

(1) Nature of Operations

Embry-Riddle Aeronautical University, Inc. and Subsidiaries (the University), is an independent, nonprofit culturally diverse institution providing quality education and research in aviation, aerospace, engineering, and other related fields (e.g., security, intelligence and safety, applied science, etc.) leading to associate's, baccalaureate's, master's and doctoral degrees. The University has traditional, residential campuses in Daytona Beach, Florida, and Prescott, Arizona; the Worldwide campus provides educational opportunities online and at locations in the United States, Europe, Asia, South America, and the Middle East. Additionally, the University's proprietary online program, EagleVision, links students and faculty across the globe, enabling the development and delivery of learning whenever and wherever students and faculty reside. The University is accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC). The accreditation of the University includes all its units, wherever located.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

(b) Classification of Net Assets

Financial statements of not-for-profit organizations measure aggregate net assets and net asset activity based on the absence or existence of donor-imposed restrictions. Effective with the July 1, 2018 implementation of new guidance regarding the Presentation of Financial Statements for Non-for-Profit Entities, net assets are reported as without donor restrictions and with donor restrictions and serve as the foundation of the accompanying consolidated financial statements. Descriptions of the two net asset categories follow:

Net assets without donor restrictions – Net assets derived from tuition, fees and other institutional resources and related expenses associated with the core activities of the University that are not subject to explicit donor-imposed restrictions. Net assets without donor restrictions also include Board-designated funds functioning as endowment, restricted gifts whose donor-imposed restrictions were met during the same fiscal year as received, as well as previously restricted gifts and grants for capital assets that have been placed in service.

Net assets with donor restrictions – Net assets that are subject to explicit donor-imposed restrictions on the expenditures of contributions or income and gains on contributed assets, and net assets from endowments not yet appropriated for spending by the University. The University records as net assets with donor restrictions the original amounts of gifts which donors have given to be maintained in perpetuity. Restrictions include support of specific colleges or departments of the University, for scholarships, research, and faculty support. The expiration of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for capital assets when the associated long-lived asset is placed in service are reported as net assets released from restrictions.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(in thousands)

(c) Principles of Consolidation

The consolidated financial statements include the assets, liabilities, revenue, and expenses of all significant subsidiaries. All significant intercompany transactions and accounts are eliminated in consolidation. The University's wholly-owned subsidiary, Embry-Riddle Aeronautical University, Asia Ltd. (ERAU Asia) is a company limited by guarantee and incorporated in Singapore. The principal activities of ERAU Asia are to provide teaching and research in the area of aeronautics and aerospace and related fields.

(d) Translation of Accounts of Foreign Subsidiaries

Accounts of foreign subsidiaries are translated into U.S. dollars using the current rate method as follows:

- monetary and nonmonetary assets, and liabilities at the year-end rate of exchange
- capital stock at historical rates of exchange
- revenue and expenses at average rates for the year, except for amortization, which is translated at exchange rates used in the translation of the relevant asset accounts

All gains and losses arising from the translation of foreign currencies are included in the accompanying consolidated statements of activities.

(e) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation. The reclassifications had no impact on total net assets, total change in net assets, the statement of financial position, or the statement of cash flows.

(f) Cash and Cash Equivalents

Cash and cash equivalents are liquid instruments having original maturities at the time of purchase of three months or less, or funds investing primarily in such instruments, excluding those held in short-term and long-term investments or which are on deposit with a trustee.

(g) Short-Term Investments

Short-term investments are comprised of investments in securities or funds whose maturities and duration extend beyond the characteristics of cash and cash equivalents but are not considered long-term investments. Short-term investments are recorded at fair value and are generally priced and available on a daily basis.

Investment income is recorded on the accrual basis; purchases and sales of short-term investment securities are recorded on a trade-date basis.

(h) Concentration of Risks

Financial instruments, which potentially subject the University to significant concentrations of credit risk, consist principally of cash and cash equivalents, and investments. The University maintains its cash in

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(in thousands)

bank deposit accounts which, at times, may exceed federally insured limits. The University has not experienced any losses in such accounts. The University believes it is not exposed to any significant credit risk on cash and cash equivalents or concentration risk on investments.

(i) ***Pledges Receivable***

An unconditional promise to give is recognized initially at fair value as private gift revenue in the period the promise is made by a donor. The fair value of the pledge is estimated based on anticipated future cash receipts (net of an allowance for uncollectible amounts) and discounted using a risk-adjusted rate commensurate with the duration of the payment plan.

(j) ***Inventories***

Inventories, consisting primarily of spare parts for aircraft and flight training devices and consignment inventories, are stated using the lower of cost (determined on first in, first out (FIFO) method of inventory valuation) or estimated market value (specific identification or average cost method) based on the type of inventory item, and, in some cases, Federal Aviation Administration (FAA) requirements.

(k) ***Deposits and Investments Held with Trustees***

Deposits and investments held with trustees are restricted cash and short-term investments consisting of proceeds from the Volusia County Educational Facilities Authority Educational Facilities Revenue Bonds. These funds are subject to restrictions imposed by the bond covenants and limited to use on authorized bond projects.

(l) ***Long-Term Investments***

Long-term investments in marketable equity securities and debt securities, including mutual funds, are recorded at their estimated fair values, which are based on quoted market prices or recognized pricing services. Alternative investments are stated at fair value as established by using the net asset value (NAV) of each investment provided by the investment fund manager. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Values may be based on historical cost, appraisals or other estimates that require varying degrees of judgment. Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at date of gift. Purchases and sales of investments are recorded on the trade date.

The University invests in a combination of investment securities, which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near-term could materially affect the University's investment balance reported in the consolidated statements of financial position.

Investment income is recorded on the accrual basis.

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Notes to Consolidated Financial Statements

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(in thousands)

(m) Split-Interest Agreements

Split-interest agreements with donors consist of gift annuity contracts. Assets associated with split-interest agreements are included in long-term investments. A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments. At June 30, 2019 and 2018, the University had liabilities of \$93 and \$102, respectively, associated with its gift annuity contracts. In subsequent periods, the discount rate is unchanged.

(n) Fair Value of Financial Instruments

Authoritative guidance on fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the University. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about how market participants would value an asset based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 – quoted market prices in active markets for identical investments

Level 2 – inputs other than quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or inputs other than quoted prices that are observable including model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Level 3 – valuation techniques that use significant inputs that are unobservable because they trade infrequently or not at all.

(o) Land, Land Improvements, Buildings and Equipment

Land, land improvements, buildings and equipment are generally stated at cost or, if contributed, at estimated fair value at the date of the gift, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from 7 years for land improvements, 5 to 40 years for buildings and building improvements, and 2 to 10 years for equipment.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When such events or changes in circumstances indicate an asset may be not be recoverable, the impairment loss recognized is the amount by which the asset's net carrying value exceeds its estimated fair value.

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June 30, 2019 and 2018

(in thousands)

(p) *Asset Retirement Obligations*

The University has asset retirement obligations (AROs) arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings and equipment are disposed of or renovated. The liability was initially measured at fair value and subsequently is adjusted for accretion expenses and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The University revalues asset retirement obligations as remediation costs are incurred or as additional cost information becomes available.

(q) *Capitalized Interest*

The University capitalizes interest costs incurred on debt during the construction of major projects exceeding one year. During fiscal years 2019 and 2018, the amount of interest capitalized was \$1,806 and \$3,247, respectively.

(r) *Unamortized Bond Premiums*

Bond premiums associated with bond issuances are deferred and amortized on the effective-yield method over the lives of the respective bond issues (see Note 9).

(s) *Unamortized Bond Issuance Costs*

Costs incurred in connection with bond issuances are generally amortized on the effective-yield method over the lives of the respective bond issues and unamortized balances are presented as a direct deduction from the related debt in the accompanying consolidated statements of financial position (see Note 9).

(t) *Deferred Revenue*

The University has approximately \$11,881 and \$12,249 in deferred revenue recorded as of June 30, 2019 and 2018, respectively, related to food service arrangements to provide and manage the University's dining service program. As part of the agreements, the University received certain advances in the form of financial investments to improve dining facilities, guaranteed commissions and other concessions in exchange for the exclusive rights to use the University's facilities and equipment. These advances are refundable should the University terminate the agreement prior to its expiration; the amount of the refundable amount is proportionate to the unexpired portion of the terms. Accordingly, the University recorded the unamortized portion of certain advances received as deferred revenue.

(u) *Federal and State Income Taxes*

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except for unrelated business income, is exempt from federal income taxes. There was no provision for income taxes due on unrelated business income in fiscal years 2019 and 2018, and there are no uncertain tax positions considered to be material.

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(in thousands)

(v) Tuition and Fees

Student tuition and fees are recorded as revenue during the year in which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

(w) Gifts, Grants and Contracts

Gifts, including unconditional pledges, are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value on the date of gift. Unconditional promises to give are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Revenue from government and private grants and contract agreements is recognized as it is earned through expenditure in accordance with the related agreements. Any funding received in advance of expenditure is recorded as deferred revenue on the consolidated statements of financial position. Included in deferred revenue at June 30, 2019 and 2018 are \$1,028 and \$264, respectively, of private grant and contract receipts, that have not been expended.

(x) Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include collectability of accounts receivable and contribution receivables, fair value measurement of alternative investments, carrying value of land, buildings and equipment, contingency reserves, self-insurance reserves, and asset retirement obligations. Actual results could differ materially, in the near term, from the amounts reported.

(y) Accounting Pronouncements

(i) Not-For-Profit Financial Statement Presentation

During fiscal year 2019, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. This guidance is intended to enhance net asset classification requirements and information presented in the financial statements and notes about a nonprofit's liquidity, financial performance, and cash flows. Main provisions of this guidance include presentation of two classes of net assets; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service, and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both natural and functional classification.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
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Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(in thousands)

(ii) *Revenue Recognition*

During fiscal year 2019, the University adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As a result, enhanced disclosures related to contracts are now presented in these notes to the consolidated financial statements (see Note 10). The University elected the retrospective method of adoption and applied the adoption to its tuition, fees, and auxiliary student contracts; however, no transition adjustment was required as a result of adopting the standard.

(3) Financial Assets and Liquidity Resources

The University actively monitors liquidity required to meet its general expenditures. General expenditures include operating expenses, debt service payments and internally funded capital projects.

The University's financial assets available within one year of the statement of financial position date for general expenditures as of June 30, 2019 and 2018 are as follows:

	2019	2018
Total assets	\$ 886,669	829,619
Less nonfinancial assets:		
Land and land improvements, buildings and equipment, net	(497,141)	(465,747)
Inventories	(3,562)	(3,335)
Prepaid and other current assets	(7,471)	(5,796)
Other assets	(329)	(1,126)
Total financial assets	378,166	353,615
Less amounts not available for general expenditures within one year:		
Other long-term notes receivable	(2,200)	(1,270)
Restricted by donor with time or purpose restrictions	(11,691)	(10,809)
Board-designated endowment funds	(101,836)	(89,140)
Donor restricted endowment funds	(55,117)	(44,472)
Other contractual restrictions	(17,557)	(37,552)
Total financial assets not available to meet general expenditures within one year	(188,401)	(183,243)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 189,765	170,372

As of June 30, 2019, \$189,765 of financial assets consisting primarily of cash and cash equivalents, \$84,652; investments, net of time or purpose restrictions, \$92,179; accounts and notes receivable, \$12,934; are available within one year of the balance sheet date to meet cash needs for general expenditures.

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In addition to these available financial assets, for the years presented, the University's annual expenditures have been funded by current year operating revenues including tuition and related fees. The University has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due. In addition, as part of its liquidity management, the University invests cash in excess of average monthly requirements in various short-term investments.

Further, as of June 30, 2019, the University had an additional \$101,836 in funds functioning as endowment, which could be available for general expenditure with Board approval.

(4) Investments

Investments at June 30, 2019 and 2018 are comprised of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 315	441
U.S. equity	68,766	60,172
International equity	30,555	26,631
Fixed income	137,761	104,136
Real asset	7,956	6,947
Private partnerships:		
Real estate	7,859	7,365
Hedge funds:		
Multi-strategy	7,907	6,594
Other	—	15
	<u>261,119</u>	<u>212,301</u>
Total investments	\$ 261,119	212,301
Short-term investments	\$ 101,496	75,907
Investments, held for long-term purposes	<u>159,623</u>	<u>136,394</u>
Total investments	<u>\$ 261,119</u>	<u>212,301</u>

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(a) ***Fair Value Hierarchy of Investments***

The fair value hierarchy of investments as of June 30, 2019 is as follows:

	Level 1	Total
Cash and cash equivalents	\$ 315	315
U.S. equity	68,766	68,766
International equity	30,555	30,555
Fixed income	137,761	137,761
Real asset	7,956	7,956
	\$ 245,353	245,353
Investments measured at NAV as practical expedient		15,766
Total investments at fair value		\$ 261,119

The fair value hierarchy of investments as of June 30, 2018 is as follows:

	Level 1	Total
Cash and cash equivalents	\$ 441	441
U.S. equity	60,172	60,172
International equity	26,631	26,631
Fixed income	104,136	104,136
Real asset	6,947	6,947
	\$ 198,327	198,327
Investments measured at NAV as practical expedient		13,974
Total investments at fair value		\$ 212,301

The University had no investments in Levels 2 and 3 and there were no transfers between fair value hierarchy levels for the years ended June 30, 2019 and 2018.

The University had no unfunded commitments as of June 30, 2019 and 2018.

Investment return is reported in the consolidated statements of activities as investment income, net and investment earnings distributed and totaled \$10,205 and \$11,866 for the years ended June 30, 2019 and 2018, respectively.

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Fair value estimates and redemption information for investment funds valued at NAV (or its equivalent) as a practical expedient at June 30, 2019 and 2018 are as follows:

<u>Investment Type</u>	<u>Fair Value June 30, 2019</u>	<u>Fair Value June 30, 2018</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Other Redemption Restrictions</u>
Private equity – real estate (a) \$	7,859	7,365	Quarterly	90 days	None
Hedge fund – multi-strategy (b)	7,907	6,609	Semi-annual	95 days	Various initial lockup periods for each capital contribution, limits on redeemable proportion of outstanding balances and provisions allowing partial redemptions despite lockups
Total	<u>\$ 15,766</u>	<u>13,974</u>			

The investment objectives for these investments measured using the net asset or unit value are as follows:

- (a) Pursues a nationally diversified portfolio of high-quality assets through an "enhanced" or "core plus" investment strategy
- (b) Capital appreciation with limited variability of returns

(5) Endowment

The University's endowment consists of hundreds of individual funds established for a variety of purposes supporting the University's operations. The endowment includes both donor-restricted endowment funds and funds designated by the University's Board to function as endowments (funds functioning as endowment). Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was enacted in the state of Florida on July 1, 2012, does not preclude the University from spending below the original gift value of donor-restricted "true" endowment funds.

For accounting and reporting purposes, the University classifies as net assets with donor restrictions the historical value of donor-restricted "true" endowment funds which includes (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation on donor restricted "true" endowment funds which are available for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA, and deficiencies associated with funds where the value of the fund has fallen below the original value of the gift.

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Changes in the fair value of the University's endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2019:

	2019		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 89,140	45,358	134,498
Investment return, net	2,678	3,102	5,780
Appropriation for expenditure	—	(1,354)	(1,354)
Endowment return, net of appropriation	<u>2,678</u>	<u>1,748</u>	<u>4,426</u>
Other changes in endowment investments:			
Contributions	—	12,463	12,463
Transfers to create funds functioning as endowment	10,018	—	10,018
Total other changes in endowment investments	<u>10,018</u>	<u>12,463</u>	<u>22,481</u>
Endowment net assets, end of year	<u>\$ 101,836</u>	<u>59,569</u>	<u>161,405</u>

Changes in the fair value of the University's endowment investments and net assets by type of fund were as follows for the fiscal year ended June 30, 2018:

	2018		
	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 82,335	42,264	124,599
Investment return, net	6,813	3,387	10,200
Appropriation for expenditure	(47)	(1,287)	(1,334)
Endowment return, net of appropriation	<u>6,766</u>	<u>2,100</u>	<u>8,866</u>
Other changes in endowment investments:			
Contributions	—	994	994
Transfers to create funds functioning as endowment	39	—	39
Total other changes in endowment investments	<u>39</u>	<u>994</u>	<u>1,033</u>
Endowment net assets, end of year	<u>\$ 89,140</u>	<u>45,358</u>	<u>134,498</u>

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Endowment net assets as of June 30, 2019 and 2018 are classified as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
2019:			
Donor-restricted endowment funds	\$ —	59,569	59,569
Board-designated funds functioning as endowment funds	<u>101,836</u>	<u>—</u>	<u>101,836</u>
Total	<u>\$ 101,836</u>	<u>59,569</u>	<u>161,405</u>
2018:			
Donor-restricted endowment funds	\$ —	45,358	45,358
Board-designated funds functioning as endowment funds	<u>89,140</u>	<u>—</u>	<u>89,140</u>
Total	<u>\$ 89,140</u>	<u>45,358</u>	<u>134,498</u>

(a) **Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. Deficiencies of this nature, referred to as underwater endowments, are reported in net assets with donor restrictions. At June 30, 2019 and 2018, the amount by which funds were underwater was \$1 and \$0, respectively.

(b) **Endowment Appropriation**

The endowment seeks to achieve reasonable stability in budgeting for University operations and to maintain intergenerational equity between near-term and long-term priorities. On an annual basis the Board, based on various factors, authorizes a spending rate in the form of an endowment payment. The spending rate has typically been between 4% and 5% of the 3-year moving average market value of the endowed funds, but may vary based on factors such as economic conditions.

If endowment income received is not sufficient to support the total return objective, the balance is provided from capital gains. If income received is in excess of the objective, the balance is reinvested in the endowment.

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(6) Student Loans Receivable

At June 30, student loans included in the consolidated statements of financial position consist of the following:

	<u>2019</u>	<u>2018</u>
Federal Perkins Loan Program	\$ 10,156	11,856
Other student loans	1,380	1,362
Less: allowance for doubtful accounts	<u>(814)</u>	<u>(1,201)</u>
Total student loans receivable, net	10,722	12,017
Current portion	<u>1,332</u>	<u>1,707</u>
Long-term portion	<u>\$ 9,390</u>	<u>10,310</u>

The Federal Perkins Loan Program expired on September 30, 2017, with final loan disbursements permitted through June 30, 2018. Although no new Perkins loans are permitted, recipients of the Perkins loans have an obligation to repay the University, which in turn pays the federal government. The liability for refundable federal government loans, as reported in the consolidated statements of financial position, was \$9,731 and \$9,422 at June 30, 2019 and 2018, respectively, and is included as a component of advances for student loans and financial aid in the accompanying consolidated statements of financial position.

Other student loans receivable consist of uncollateralized loans to current and former students of the University with various interest rates and repayment terms. The allowance for student loans receivable is determined based on estimated default rates.

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(7) Contributions Receivable

Contributions receivable at June 30 are as follows:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,376	685
One year to five years	1,004	1,241
More than five years	1,625	—
	7,005	1,926
Less:		
Allowance for uncollectible pledges	386	46
Discount for present value (4.46% and 4.42% at June 30, 2019 and 2018, respectively)	520	98
Contribution receivable, net	\$ 6,099	1,782

Contributions receivable, net, are reported in the accompanying consolidated statements of financial position as follows at June 30:

	2019	2018
Current portion	\$ 4,215	664
Long-term portion	1,884	1,118
Contribution receivable, net	\$ 6,099	1,782

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(8) Land, Land Improvements, Buildings and Equipment

Land, land improvements, buildings and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 69,670	64,133
Buildings	543,082	451,335
Equipment	217,502	209,772
Construction-in-progress	<u>41,245</u>	<u>103,040</u>
Subtotal	871,499	828,280
Less accumulated depreciation and amortization	<u>(374,358)</u>	<u>(362,533)</u>
Land, land improvements, buildings, and equipment, net	<u>\$ 497,141</u>	<u>465,747</u>

Assets under capital leases, which are included in land, land improvements and equipment, at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 1,235	1,235
Equipment (aircraft)	28,646	28,646
Less accumulated depreciation	<u>(8,059)</u>	<u>(6,388)</u>
Assets under capital leases, net	<u>\$ 21,822</u>	<u>23,493</u>

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The following is a schedule of future minimum lease payments (for the next five years and thereafter) under capital leases as of June 30, 2019:

	Amount
Year ending June 30:	
2020	\$ 4,564
2021	4,564
2022	2,985
2023	1,453
2024	182
Thereafter	382
Total minimum lease payments	14,130
Less amounts representing interest	(751)
Net minimum lease payments	\$ 13,379

The net minimum lease payments of \$4,237 and \$9,142 and \$4,122 and \$13,285, as of June 30, 2019 and 2018, respectively, are reflected in the accompanying consolidated statements of financial position as a component of current and noncurrent long-term debt.

In March 2000, the University entered into a multiparty real estate transaction. Under the terms of the transaction, the University deeded title to a building with a book value of approximately \$1,600 to another party to the transaction. In exchange for the deeding of the building, the University acquired a building and entered into an agreement as assignee of the lease for the land upon which the acquired building is located. Under the terms of the land lease, which expires in May 2026, the University has the option to pay \$100 and acquire title to the land. As a result of the transaction, the University recorded land under a capital lease of approximately \$1,200, along with a capital lease obligation for approximately \$862. In accordance with the lease agreement, every three years, in June, the land value is reappraised. The University records the appraisal adjustment to the asset and associated liability to reflect the fair market value of both the asset and liability.

The University has commitments on existing construction-in-progress projects totaling approximately \$12,207 as of June 30, 2019.

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(9) Long-Term Debt

Long-term debt at June 30, 2019 and 2018 consists of the following:

	<u>Interest rate</u>	<u>Fiscal years of maturity</u>	<u>Principal outstanding at June 30, 2019</u>	<u>Principal outstanding at June 30, 2018</u>
Capital lease obligations:				
Land – 501 S. Clyde Morris Blvd.	2.87 %	2026	\$ 862	945
Aircraft – Banc of America Leasing	2.28%–3.03%	2023	12,517	16,462
			<u>13,379</u>	<u>17,407</u>
Bonds payable:				
Volusia County Educational:				
Facilities revenue bonds:				
Series 2013	3.55 %	2028	18,189	19,271
Series 2015A	2.91 %	2031	40,795	43,605
Series 2015B	2.00%–6.00%	2046	68,220	68,560
Series 2015C	2.28 %	2027	21,325	23,300
Series 2017	5.00 %	2048	46,355	46,355
			<u>194,884</u>	<u>201,091</u>
Total principal debt				
Plus: Unamortized premium				
Unamortized premium – Series 2015B			6,427	6,097
Unamortized premium – Series 2017			7,411	7,731
			<u>13,838</u>	<u>13,828</u>
Total unamortized premium				
Less: Unamortized bond issuance costs				
Issuance costs – Series 2013			82	48
Issuance costs – Series 2015A			142	166
Issuance costs – Series 2015B			679	563
Issuance costs – Series 2015C			45	60
Issuance costs – Series 2017			399	459
			<u>1,347</u>	<u>1,296</u>
Total unamortized bond issuance costs				
			<u>1,347</u>	<u>1,296</u>
Total long-term debt				
			220,754	231,030
Current portion				
			<u>11,436</u>	<u>12,896</u>
Long-term portion				
			<u>\$ 209,318</u>	<u>218,134</u>

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(a) Capital Lease Obligations

The University entered into a capital lease obligation with Volusia County for land leased in the amount of \$2,157. The lease was entered into as part of a multiparty real estate transaction whereby the University exchanged a building with a book value of approximately \$1,600, for a building located on the land under lease, along with the assumption of the land lease (see Note 8).

The University entered into a capital lease obligation with Banc of America Leasing for aircraft leased in the amount of \$28,205. Under the terms of the aircraft lease, which expires September 2023, the University has the option to pay \$1 and acquire title to the aircraft. As a result of the transaction, the University recorded the aircraft under capital lease obligations of approximately \$28,646 (see Note 8).

(b) Tax-Exempt Revenue Bonds

The University's tax-exempt bonds are issued through the Volusia County Educational Facilities Authority (VCEFA), a Florida State agency serving as a conduit issuer of tax-exempt debt. The loan agreements between VCEFA and the University contain various financial covenants, including annual debt service coverage and additional bond tests. The bonds are a general obligation of the University; there are no liens on revenue or assets.

Deposits with bond trustees consist of debt service funds and unexpended proceeds of certain debt. These funds will be used for construction of, or payment of, debt service on certain facilities. Deposits with bond trustees of \$1,772 and \$25,460 are included in deposits and investments held with trustees on the consolidated statements of financial position as of June 30, 2019 and 2018, respectively.

Series 2013 bonds were issued at par in the original amount of \$25,820 to refund outstanding Series 2003 bonds. This transaction was accounted for as an extinguishment of debt. The remaining Series 2003 deferred financing fees and other costs were recorded as a loss on extinguishment of debt. The effective interest rate of the bond issue is 3.55%.

Series 2015A bonds were issued at par in the original amount of \$50,740 to partially refund Series 2005 bonds. This transaction was accounted for as an extinguishment of debt. The associated remaining Series 2005 deferred financing fees and other costs were recorded as a gain on extinguishment of debt. The effective interest rate of the bond issue is 2.91%.

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Series 2015B bonds were issued at a premium of \$7,079 to the original amount of \$69,195 to fund various construction projects on the Daytona Beach and Prescott campuses. The effective interest rate of the bond issue is 4.03%.

Series 2015C bonds were issued at par in the original amount of \$26,535 to refund outstanding Series 2005 bonds. This transaction was accounted for as an extinguishment of debt. The associated remaining Series 2005 deferred financing fees and other costs were recorded as a loss on extinguishment of debt. The effective interest rate of the bond issue is 2.28%.

Series 2017 bonds were issued at a premium of \$7,981 to the original issue amount of \$46,355 to fund various construction projects on the Daytona Beach and Prescott campuses and to advance refund outstanding Series 2011 bonds. The effective interest rate of the bond issue is 3.72%.

The portion of the proceeds from the Series 2017 bonds (\$11,982) and other sources of funds (\$22,236) were placed in an irrevocable escrow account to provide for debt service payments and redemption of the bonds as of the call date on October 15, 2021. Accordingly, the refunded Series 2011 bonds were legally defeased and neither the indebtedness nor the assets of the irrevocable trust are included on the consolidated statements of financial position.

Maturities of long-term debt in each of the next five fiscal years and thereafter at June 30, 2019, are as follows:

	Amount
Year ending June 30:	
2020	\$ 11,022
2021	11,285
2022	9,954
2023	8,463
2024	11,607
Thereafter	155,932
Unamortized bond premium	13,838
Unamortized bond issue costs	(1,347)
Total long-term debt, net	\$ 220,754

(10) Revenue from Contracts with Customers

Revenue from contracts with customers comprises revenue from students for tuition, fees, and auxiliary enterprises.

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The University's operating revenue is primarily derived from academic programs provided to students, including undergraduate, graduate and professional degree programs. Tuition and fees revenue is earned by the University for these educational services delivered during an academic term. Tuition is charged at different rates depending on the program in which the student is enrolled. As part of a student's course of instruction, certain fees, such as technology fees and laboratory fees, are billed to students. Tuition and fees are earned over the applicable academic term and are not considered separate performance obligations.

Tuition scholarships awarded by the University represent a reduction of the tuition transaction price. Institutional financial aid awards vary by student based on merit, need, or other qualifications. Scholarships are generally awarded for the academic year and are applied to the student's account during each academic term. Revenue is recognized and presented in the consolidated financial statements net of any such tuition discounts.

Academic terms are determined by regulatory requirements mandated by the federal government and/or applicable accrediting body. Academic terms are determined by start dates, which vary by program and are generally 9-16 weeks in length. Except for online programs and certain programs delivered during the summer, the academic terms generally have start and end dates that fall within the University's fiscal year.

The University bills tuition and fees in advance of each academic term and recognizes the tuition and fees revenue on a straight-line basis, as the educational services are performed, over the academic term or program. Students that withdraw by the last day of add/drop receive a full refund for the academic term. Per University policy, during the fall and spring terms, residential students who officially withdraw from the University are eligible for a pro rata refund based on their last day of attendance.

Auxiliary enterprises revenue includes student housing, dining services commissions, health fees and other miscellaneous income. Room fees are charged at different rates depending on the residence hall and room accommodations. Room fees are billed in advance of each academic term and recognized as revenue on a straight-line basis over the period housing is provided.

Grants for basic research and other sponsored programs are generally subject to restrictions and conditions that must be met before the University is entitled to funding. Accordingly, advances from granting agencies are generally considered refundable in the unlikely event specified services are not performed. The University recognizes revenues on grants for basic research and other sponsored programs as the awards for such programs are expended, since expenditure in accordance with award terms typically results in the simultaneous release of restrictions and conditions imposed by the grantor. Revenue from exchange contracts for applied research is recognized as the University's contractual performance obligations are substantially met. Indirect cost recovery by the University on U.S. government grants and contracts is based upon a predetermined negotiated rate and is recorded as grants and contracts revenue.

(11) Retirement

Retirement benefits are provided through a noncontributory defined contribution plan (Plan) covering all qualified employees. The Plan is administered through the Teachers Insurance and Annuity Association

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College Retirement Equities Fund (TIAA-CREF), a national organization used to fund pension benefits for educational institutions for the year June 30, 2019 and 2018. Retirement plan expenses for the years ended June 30, 2019 and 2018 were \$13,886 and \$13,167, respectively.

(12) Commitments and Contingencies

(a) Operating Leases

The University leases land, buildings, and equipment for its operations. Total rental expense for the years ended June 30, 2019 and 2018 was approximately \$6,832 and \$7,352, respectively. Future minimum rental payments required under operating leases for the next five years and thereafter at June 30, 2019, are as follows:

	<u>Amount</u>
Year ending June 30:	
2020	\$ 5,166
2021	4,844
2022	4,516
2023	4,520
2024	4,246
Thereafter	<u>8,029</u>
Total	<u>\$ 31,321</u>

(b) Unionized Labor Force

The University employs approximately 150 full-time flight instructors in the Daytona Beach area who are part of a collective bargaining unit covered by the International Association of Machinists and Aerospace Workers Union (Union), AFL-CIO, whose contract expires on June 30, 2022.

(c) Litigation

The University is involved in litigation on a number of matters, which arise in the normal course of business, none of which, in the opinion of management, are expected to have a material adverse effect on the University's consolidated financial statements.

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(d) *Guarantee Liability*

The University participated in the Guaranteed Access to Education (GATE) loan program, which is administered by a third-party vendor. The University entered into a limited guarantee agreement through 2022 for student loans, which is triggered when students default. At June 30, 2019, the maximum potential amount of future payments under this program is \$462, undiscounted. At June 30, 2018, the University has established a liability of \$154 to estimate student loan defaults under this program.

(e) *Self-Insurance Reserves*

Since May 1989, the University has been providing medical (including pharmacy), dental, and vision insurance benefits for its employees. Currently, the University has both fully insured and self-insured medical plans. The vision and dental plans are fully insured. To assist with administering the self-insured plan, the University uses a Third-Party Administrator (TPA) under an Administrative Services Only (ASO) arrangement. Blue Cross Blue Shield (BCBS) is the administrator of the medical benefits. The University contracts directly with BCBS, the ASO administrator, to access the nation wide network of medical providers for the self-insured medical plan.

The University is fully liable for all financial and legal aspect of itself-insured employee benefits plan. To protect itself against unfunded financial liability, stop-loss insurance is purchased, under which the excess portion of claims that are above the agreed limit (stop loss) would become the responsibility of the reinsurer. There are limits with both specific claims and aggregate for the whole plan.

Self-insurance reserves are based on estimates of historical claims experience, and while management believes that the reserves are adequate, the ultimate liabilities may be more or less than the amounts provided. As of June 30, 2019 and 2018, self-insurance reserves amount to approximately \$1,367 and \$1,439, respectively.

(13) *Functional Classification of Expenses*

The University's primary program service is academic instruction and support. Expenses incurred in support of this primary program activity include general academic and flight instruction, research, student services, and auxiliary enterprises. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as square footage and time and effort.

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Operating expenses by nature and function are summarized as follows for the year ended June 30, 2019:

	Academic, Instruction and Research	Student Services and Auxiliary	Institutional Support	Total
Salaries and wages	\$ 124,640	25,954	32,945	183,539
Fringe benefits	34,012	8,002	10,783	52,797
Other operating expenses	40,543	19,931	21,270	81,744
Insurance	1,031	560	2,643	4,234
Utilities	1,563	5,007	673	7,243
Interest	1,270	4,562	417	6,249
Depreciation and amortization	18,653	12,276	4,411	35,340
Total operating expenses	\$ <u>221,712</u>	<u>76,292</u>	<u>73,142</u>	<u>371,146</u>

Operating expenses by nature and function are summarized as follows for the year ended June 30, 2018:

	Academic, Instruction and Research	Student Services and Auxiliary	Institutional Support	Total
Salaries and wages	\$ 120,155	24,711	30,851	175,717
Fringe benefits	33,612	7,671	9,980	51,263
Other operating expenses	43,441	19,368	20,242	83,051
Insurance	1,037	563	2,349	3,949
Utilities	1,731	4,716	437	6,884
Interest	1,545	2,305	367	4,217
Depreciation and amortization	17,595	10,009	4,029	31,633
Total operating expenses	\$ <u>219,116</u>	<u>69,343</u>	<u>68,255</u>	<u>356,714</u>

The costs of depreciation and interest expense have been allocated to the functional expense categories to reflect the full cost of those activities. Costs are allocated using the following methods:

- Depreciation expense for buildings is allocated based on the square footage used to support each function. Depreciation expense on equipment is allocated to other functions based on the location of the equipment and the use of that space. These allocations are based on information obtained through a periodic inventory of space and equipment usage.
- Interest expense is allocated based on usage of debt-financed space.

**EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(in thousands)

(14) Net Assets

Net assets consisted of the following at June 30:

	2019	2018
Without donor restrictions:		
Debt service funds	\$ 26,860	26,023
Board-designated endowment funds	101,836	89,140
Net investment in plant	319,191	285,781
Undesignated	67,692	58,960
Total net assets without donor restriction	515,579	459,904
With donor restrictions:		
Time or purpose restricted	28,839	27,159
Time or purpose restricted pledges	1,942	894
Split interest agreements	220	318
Donor-restricted endowment funds	35,806	26,910
Donor-restricted endowment funds pledges	4,453	886
Total net assets with donor restrictions	71,260	56,167
Total net assets	\$ 586,839	516,071

Net assets released from restrictions met purpose restrictions in the following categories:

	2019	2018
Donations restricted for capital asset construction or acquisition	\$ 1,351	5
Donations restricted for scholarships	1,785	1,724
Donations restricted for noncapital programs or acquisitions	974	1,039
Net assets released from restrictions	\$ 4,110	2,768

(15) Subsequent Events

Management of the University has reviewed subsequent events from June 30, 2019, through October 25, 2019 (the date the accompanying consolidated financial statements were issued). No material recognizable subsequent events were identified.

SUPPLEMENTAL INFORMATION

EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.

Net Assets Class Disaggregation Schedule

June 30, 2019

(In thousands)

Assets	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 84,652	—	84,652
Short-term investments	101,496	—	101,496
Accounts and notes receivable, less allowance for doubtful accounts of \$1,070	11,602	—	11,602
Current portion of student loans receivable, net	1,332	—	1,332
Current portion of contributions receivable, net	1	4,214	4,215
Inventories	3,562	—	3,562
Prepaid expenses and other current assets	7,471	—	7,471
Total current assets	<u>210,116</u>	<u>4,214</u>	<u>214,330</u>
Deposits and investments held with trustees	1,772	—	1,772
Long-term accounts and notes receivable, net	2,200	—	2,200
Student loans receivable, less current portion and allowance for doubtful accounts of \$814	9,390	—	9,390
Contributions receivable, net – less current portion	—	1,884	1,884
Other assets	329	—	329
Long-term investments	94,368	65,255	159,623
Land, land improvements, buildings and equipment, net	497,141	—	497,141
Total assets	<u>\$ 815,316</u>	<u>71,353</u>	<u>886,669</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 36,361	—	36,361
Advances for student loans and financial aid	9,851	—	9,851
Student deposits and advance payments	10,151	—	10,151
Deferred revenue – current portion	12,013	—	12,013
Current portion of long-term debt	11,436	—	11,436
Total current liabilities	<u>79,812</u>	<u>—</u>	<u>79,812</u>
Deferred revenue, less current portion	10,607	—	10,607
Long-term debt	209,318	—	209,318
Other liabilities	—	93	93
Total liabilities	<u>299,737</u>	<u>93</u>	<u>299,830</u>
Net assets:			
Without donor restrictions	515,579	—	515,579
With donor restrictions:			
Time or purpose	—	31,001	31,001
Perpetual	—	40,259	40,259
Total net assets	<u>515,579</u>	<u>71,260</u>	<u>586,839</u>
Total liabilities and net assets	<u>\$ 815,316</u>	<u>71,353</u>	<u>886,669</u>

EMBRY-RIDDLE AERONAUTICAL UNIVERSITY, INC.

Schedule of Title IV Strength Factor Score

June 30, 2019

(In thousands)

<u>Primary Reserve Ratio</u>				
Expendable Net Assets			\$	<u>269,972</u>
Total Expenses			\$	<u>371,146</u>
				<u>0.7274</u>
<u>Equity Ratio</u>				
Modified Net Assets			\$	<u>586,108</u>
Modified Assets			\$	<u>885,938</u>
				<u>0.6616</u>
<u>Net Income Ratio</u>				
Change in Unrestricted Net Assets			\$	<u>55,675</u>
Total Unrestricted Revenues			\$	<u>426,821</u>
				<u>0.1304</u>
Primary Reserve	0.7274	3.0000	40 %	1.20
Equity	0.6616	3.0000	40 %	1.20
Net Income	0.1304	3.0000	20 %	<u>0.60</u>
				<u>3.00</u>
Composite Score				<u><u>3.00</u></u>

See accompanying independent auditors' report.